COVID’s impact on Pakistan economy

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The outbreak of COVID-19 covered the whole world, posing severe socio-economic challenges, especially for the Developing Countries. Pre COVID-19, global growth was projected to rise by 3.3 % in 2020, which was sharply contracted by -3% in April 2020 as a result of the pandemic. According to the World Economic Outlook (WEO) June 2020 forecast, the growth is projected to reduce further by – 4.9 percent in 2020. Pakistan was no exception and COVID-19 drastically changed the whole scenario. Prior to the COVID-19 outbreak, the GDP growth was projected at 2.4% for Fiscal Year (FY) 2020 while it is estimated at -0.4%. The last quarter of this fiscal year bore the most significant brunt of the COVID-19 crisis.

The report says Pakistan’s debt, spending and deficits will decline by 2023. Govt revenue is projected to improve from 15.1% to 17.7%. The debt-to-GDP ratio will fall from 87.2% to 78.3%. The budget deficit will be halved to 4% from the current 8%. In three years, government spending will also fall from 22.8% to 21.7%. The IMF also predicts a primary balance surplus by 2022-23. The current fiscal year growth rate is 1%. It is expected to increase by 2% next year. It may further improve in 2023. However, IMF predicted that the unemployment rate in Pakistan will rise to 5.1% in the ongoing fiscal year.

The International Monetary Fund (IMF) forecast a subdued economic growth rate for Pakistan coupled with elevated rate of inflation and rising unemployment during the current fiscal year. IMF projected Pakistan’s growth rate at one per cent, average inflation rate at 8.8pc, current account deficit at 2.5pc of GDP (gross domestic product) and unemployment rising by 0.6pc to 5.1pc during the current fiscal year. This is in sharp contrast with targets of 2.1pc GDP growth rate, 6.5pc inflation and 1.5pc current account deficit set by the government. IMF projected the economic growth rate recovering to 5pc of GDP by 2025.

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It is expected that the rate of inflation would be peaking at 10.2pc at the end of FY2021. The IMF estimated current account deficit rising from 1.1pc of GDP in FY2020 to 2.5pc in FY2021 and then going up to 2.7pc in FY2025. Whereas, the WEO projected global growth at -4.4pc in 2020 – 0.8 percentage point above the June 2020 forecast. Although remittance flows contracted sharply during the early lockdown period but had shown signs of recovery. Nonetheless, the risk of a decline in payments and transfers from migrant workers back to their home countries is very significant, particularly Pakistan, Bangladesh, Egypt, Guatemala, the Philippines, and those in sub-Saharan Africa more broadly. The global economy was climbing out from the depths to which it had plummeted during the great lockdown in April. But with the Covid-19 pandemic continuing to spread, many countries have slowed reopening and some are reinstating partial lockdowns to protect susceptible populations. More than one million lives had been lost to Covid-19 since the start of the year and the toll continued to rise.

Many more have suffered serious illness. Close to 90 million people are expected to fall into extreme deprivation this year. The loss of human capital accumulation after widespread school closures poses an additional challenge. Moreover, sovereign debt levels are set to increase significantly even as downgrades to potential output imply a smaller tax base that makes it harder to service the debt. On the plus side, the prospects of low interest rates over a longer period, alongside the projected rebound in growth in 2021, can help alleviate debt service burdens in many countries.

On the other hand Pakistan’s V-shaped economic recovery, the concept is proving veracious in Pakistan’s case given the burgeoning remittances, current account surpluses, ameliorating foreign exchange (FX), and an orderly market-based rupee. As reported by the SBP, the current account surpluses stood at $508 million and $297 million in July and August, respectively. In consonance with SBP data, the total liquid FX reserves grew from $18.8 billion in February 2020 to $19.9 billion in August 2020. A V-shaped, precipitous economic retrieval is evident in the case of Pakistan. The current account surplus will only be short-lived if there isn’t an upturn in exports on robust fundamentals. Hence the government must ensure that it devises a strategy focused on perennially increasing exports.

The government has contained budget deficit at Rs440 billion or less than 1% of the size of national economy in first two months of the current fiscal year as it now faces the challenge of translating improvement in economic indicators into betterment in lives of people. However, the improvement came largely because of nearly 70% increase in non-tax revenue and higher petroleum levy rates. The non-tax revenue, which stood at Rs92 billion during July-August of 2019, increased to over Rs112 billion. The Federal Board of Revenue (FBR) collected Rs 3,998 billion in FY2020. Pre COVID-19, the FBR target was Rs 4,807 billion. Before COVID-19, the GDP was projected at 3.0 percent for FY2021, now it is projected at 2.1 percent. Low economic activity in the major countries resultant fall in commodity prices, exports of Pakistan remained US$ 22.5 billion as compared Pre COVID: US$ 25.5 billion estimated. Moreover, workers’ remittances reached US$ 23.1 billion as compared Pre COVID: US$ 24 billion estimated.

The path ahead will require skillful domestic policies that manage trade-offs between lifting near-term activity and addressing medium-term challenges, that sustaining the recovery will also require strong international cooperation on health and financial support for countries facing liquidity shortfalls. The governments should continue to support viable but still vulnerable firms with moratoria on debt service and equity-like support to preserve jobs. Over time, once the recovery has taken a strong hold, policies should shift gradually to facilitating reallocation of workers from sectors likely to shrink on a long-term basis to growing sectors. Along the transition, workers will need to be supported, including through income transfers, retraining and re-skilling programmes. Pakistan should design short-term support policies with a view toward placing economies on paths of stronger, equitable and sustainable growth. Moreover, investments in health and education including remedying losses incurred during the pandemic can help achieve participatory and inclusive growth.

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